

Message Text

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ACTION EB-07

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SUBJ: EPMG ISSUES PROCLAMATION ON PRIVATE SECTOR COMMERCIAL
ACTIVITIES

1. SUMMARY: THE EPMG HAS ISSUED A PROCLAMATION SETTING CAPITAL CEILINGS FOR PRIVATE INDUSTRY AS WELL AS WHOLESALE AND RETAIL TRADE. THE CEILINGS AND OTHER PROVISIONS APPLY ONLY TO NEW BUSINESSES ESTABLISHED AFTER THE EFFECTIVE DATE OF THE PROCLAMATION, DEC 29, 1975. THE CAPITAL CEILINGS ARE QUITE LOW AND IF RIGIDLY ENFORCED WOULD CLEARLY LIMIT THE ACTIVITIES OF NEW PRIVATE FIRMS IN ETHIOPIA. THE PROCLAMATION APPEARS IN LINE WITH THE EPMG'S POLICY OF REGULATING THE PRIVATE SECTOR, ESPECIALLY SMALL INDUSTRY AND TRADE, RATHER THAN NATIONALIZING SUCH FIRMS. THE REAL IMPACT OF THE REGULATIONS WILL, HOWEVER, PROBABLY BE SLIGHT AS EXISTING FIRMS ARE NOT AFFECTED. END SUMMARY

2. THE PROCLAMATION SETS CAPITAL LIMITES OF ETH\$500,000 (US\$242,000) FOR "INDUSTRY", ETH\$300,00 (US\$145,000) FOR WHOLESALE, AND ETH\$200,00 FOR RETAILERS (US\$97,000). CAPITAL IS DEFINED TO MEAN "CASH, THE VALUE OF TRADE

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RECEIVABLES, STOCKS INVESTED IN TRADE AND FIXED ASSETS, BUT

DOES NOT INCLUDE BUILDINGS". PROCLAMATION ALSO DECREES "NO PERSON SHALL OBTAIN MORE THAN ONE KIND OF LICENSE NOR POSSESS MORE THAN ONE BUSINESS OR ESTABLISH A BRANCH." INDIVIDUALS OR BUSINESSES WHICH "LAWFULLY CARRIED ON TRADE ON THE EFFECTIVE DATE OF THE PROCLAMATION" ARE EXEMPT FROM THESE PROVISIONS. THE CONSTRUCTIONS, SURFACE TRANSPORT, INLAND WATER TRANSPORT, AND PUBLISHING SECTORS ARE ALSO EXCLUDED FROM THESE RESTRICTIONS. WHOLESALES OF CEREALS AND HIDES AND SKINS SHALL NOT BE COVERED BY THE ETH\$300,000 CAPITAL CEILING OR THE LIMITATION TO A SINGLE LICENSE. THE MINISTER OF COMMERCE AND INDUSTRY ALSO HAS THE POWER TO WAIVE THE SINGLE LICENSE PROVISION FOR FIRMS ENGAGED IN EXPORT AND IMPORT TRADE OR INDUSTRY.

3. ALTHOUGH IT IS TOO EARLY TO OBTAIN A CLEAR PICTURE OF THE EFFECT OF THESE REGULATIONS UPON AMERICAN COMMERCIAL INTERESTS, IT APPEARS THAT ALREADY EXISTING NON-NATIONALIZED US SALES OFFICES (SINGER, IBM, BURROUGHS, NATIONAL CASH REGISTER, PAN AM), AS WELL AS ESTABLISHED AGENCIES AND DEALERS FOR US FIRMS SHOULD NOT BE AFFECTED. THERE IS NO SPECIFIC REFERENCE IN THE PROCLAMATION TO FOREIGN-OWNED FIRMS OR TO FOREIGN INVESTMENT.

4. THE MINISTRY OF COMMERCE AND INDUSTRY HELD A MEETING ON DEC 30 AT THE CHAMBER OF COMMERCE TO EXPLAIN THE NEW REGULATIONS TO THE LOCAL BUSINESS COMMUNITY. AN ETHIOPIAN BUSINESSMAN WHO ATTENDED THIS SESSION TOLD EMBOFF THAT MINISTRY OF COMMERCE AND INDUSTRY PERMSEC DR. ASHAGRE YIGLETU CONDUCTED NEARLY THREE-HOUR MEETING AND ASSURED BUSINESSMEN THAT REGULATIONS WOULD APPLY ONLY TO NEW FIRMS ENTERING BUSINESS AFTER EFFECTIVE DATE.

5. COMMENT: IT APPEARS THE NEW REGULATIONS HAVE BEEN ISSUED TO FULFILL A POLITICAL AS MUCH AS AN ECONOMIC PURPOSE. THE EPMG MAY HAVE FELT A NEED TO DEMONSTRATE TO THE PUBLIC THAT IT WAS TAKING ACTION TO REGULATE THE PRIVATE SECTOR. IN AS MUCH AS THE PROCLAMATION DOES NOT AFFECT ALREADY EXISTINB SUSINESSES AND IT IS UNLIKELY THAT MANY LARGE NEW BUSINESSES WILL BE ESTABLISHED IN THE FORESEEABLE FUTURE DUE TO THE POLITICAL AND ECONOMIC CLIMATE, THE REAL IMPACT OF THE PROCLAMATION WILL BE MINOR. ANOTHER INDICATION THAT THE EFFECT OF THE PROCLAMATION WILL BE LESS THAN THE RHETORIC IS THE NUMBER OF EXCEPTIONS AND LIMITED OFFICIAL USE

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LOOHOLES INCLUDED IN THE TEXT. THUS IT APPEARS THAT THIS PROCLAMATION WILL BE OF ONLY MINOR CONSEQUENCE TO THE ETHIOPIAN COMMERCIAL SECTOR UNLESS THE EPMG ATTEMPTS TO APPLY SIMILAR PROVISIONS TO EXISTING FIRMS. THUS FARE WE HAVE RECEIVED NO INDICATION THAT SUCH REGULATIONS MIGHT BE FORTHCOMING.
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